The Financial Inclusion and Markets Centre

Promoting finance that works for the economy, environment, and society

Proposals to protect consumers, and promote financial inclusion and resilience

April 2025

The National Financial Inclusion Strategy

No time to lose: fix broken markets, turn ideas into action

ABOUT THE FINANCIAL INCLUSION AND MARKETS CENTRE

The Financial Inclusion and Markets Centre is a dedicated unit of The Financial Inclusion Centre created to focus on: financial services policy and regulation; financial market reform; evaluating the economic, environmental, and social utility of finance; and understanding the implications of the intersection between finance and technology including developments in AI, big data, and other technologies. The Financial Inclusion and Markets Centre | The Financial Inclusion Centre

This unit leads on producing research projects and policy reports on financial market reform, responses to government and regulator consultations, and collaborating with other civil society organisations on campaigns.

The Financial Inclusion and Markets Centre is the 'think-tank' while the Financial Inclusion Centre acts as the 'do-tank'. The Financial Inclusion Centre remains the name of the non-profit organisation and the main legal and operating entity.

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SUMMARY

It is very welcome the Government followed through with its commitment to create a National Financial Inclusion Strategy (NFIS) and established a Financial Inclusion Committee[1] to develop and coordinate interventions to promote financial inclusion.

We have seen real progress on the number of people with access to basic banking. Millions more workers are contributing to a pension owing to automatic enrolment. More needs to be done on these issues but these are undoubtedly public policy successes. Note these particular successes were down to legislation, not 'market led' solutions.

However, more generally, we have made little progress in building financial resilience and inclusion after the 2008 financial crisis. Forty eight percent of families have less than £1,500 in savings.[2] Nine million adults have no savings, and a further five million less than £100. So, a total of 14 million people have less than £100.[3] The failure to build financial resilience meant that millions went into the Covid-related economic crisis followed by the cost of living crisis very exposed to financial shocks.

Millions struggle with debt, and can't afford to purchase or are denied access to the financial products and services they need. Others face adverse pricing practices when using commercial financial services. The key data below suggests that what we are seeing goes beyond market exclusion and is arguably systemic market discrimination.[4]

In this paper, we set out a range of proposals to protect consumers and promote financial inclusion and resilience. We urge the Financial Inclusion Committee to prioritise the most financially vulnerable and those most affected by exclusion. Black and minoritised ethnic households, people with a disability, single parents and carers (mainly women), and people living in the most deprived areas of the UK are ***significantly*** more likely to be excluded from financial services, or disadvantaged owing to the way the market functions. Millions are victims of economic abuse and/or coerced debt. Mental health issues can exacerbate the harm caused by economic and market factors.

The main causes of financial vulnerability and exclusion are: poverty and other economic factors (a matter for government); the basic nature of the market which profiles and segments people according to profitability and risk; embedded market inefficiencies in mainstream financial services which restricts the number of consumers the market can serve on mutually beneficial terms;[5] limited access to more appropriate options; and demand side or behavioural biases.

A better functioning mainstream commercial market could serve more consumers. Effective support and financial learning initiatives could empower many consumers to exercise more control over their financial destiny. Yet, we must face facts. Left to its own devices, the market cannot serve or is not interested in serving millions of consumers. This is not a criticism of the market, it is just how it

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[1] Summary of the first meeting of the Financial Inclusion Committee: 5 December 2024 - GOV.UK

[2] Family Resources Survey: financial year 2022 to 2023 - GOV.UK

[3] One in six UK adults have no savings | Money and Pensions Service

[4] Note we are not claiming that firms are consciously discriminating against certain groups in society with protected characteristics. Rather, we are referring to the way the organising principle of the market clearly disadvantages certain groups. The system is not set up to meet their needs.

[5] There is certainly no shortage of choice in financial markets, with fierce competition, and constant 'innovation'. But, that is not the same as consumers having access to socially useful products and services that enhance their financial wellbeing.

works. Government and regulatory policy should reflect the fact that large numbers of consumers are expected to use a market that just cannot or will not meet their core financial needs. If we are serious about tackling exclusion and systemic discrimination, it will need a very different approach to the one followed up to now. There are only two realistic options for meeting the priority needs of people the market cannot serve. Government and regulators would need to mandate market provision and access or support the development of alternative non-market solutions.

In terms of priority financial needs, solutions are needed to: support people in immediate financial difficulty and/or at risk of economic abuse; help people repair their finances; build savings and financial resilience; ensure the most financially vulnerable groups can access cash; expand access to fair and affordable credit; and provide access to fair and affordable basic insurance.[6]

These solutions should be underpinned by expanded access to non-profit debt and money advice, targeted government policies and regulation to address exclusionary practices by firms, and greater transparency on the financial inclusion performance of financial institutions.

Some of those priority needs could be addressed relatively quickly. We hope the Committee doesn't become a forum for yet more discussion, or calls for yet more research into who is excluded. The Committee should not be distracted by trying to define 'problem statements' or developing theories of change. We know who is excluded, and why. The wheels of policy making turn slowly. Financially vulnerable and excluded consumers cannot afford to wait. We urge the Committee, the Government, regulators, and civil society to focus on implementing interventions and solutions.

Sustainable long term solutions would require regulatory reform, structural interventions, and support for alternatives to market provision. The market cannot or won't serve millions of consumers so policymakers and regulators should fix a broken market, not try to change consumers so they adapt to the demands of the market. The Government should give the FCA more product regulation powers and the FCA should make greater use of the Consumer Duty to ensure financial products and services are affordable, fair, and inclusive. The FCA needs to do much more to ensure firms monitor whether vulnerable consumers are getting the right outcomes and are being sold the right products and services.

There are many good alternative options available so there is no need to reinvent the 'solutions wheel'. What needs further policy work is establishing how to make sure solutions reach underserved households. Good ideas are not much use if they sit on the shelf. We need to get the right ideas, to the right people, at the right time, via the right channels. The Committee, the Government, and civil society should prioritise determining how best to target effective solutions where they are most needed. What is needed is a data strategy to ensure interventions and solutions reach households.

The question arises of what happens when the Financial Inclusion Committee is wound up? Who will coordinate interventions and maintain momentum? This reinforces the need for quick wins and commitment to sustainable solutions. We cannot miss yet another opportunity to make a real difference to people's lives.

[6] The Financial Inclusion Committee is picking up most of these priorities and will focus on the following areas: digital inclusion and access to banking services; savings; insurance; affordable credit and problem debt; and financial education and capability. It will consider cross-cutting themes, including accessibility, mental health, and economic abuse.

QUICK WINS, PRIORITIES

As mentioned, some of the priorities that fall within the remit of the Financial Inclusion Strategy could be addressed relatively quickly. More details of these proposals can be found on page 16.

Minimising the impact of 'debt events', repairing finances and credit scores It is likely to be some time before any reforms resulting from the Credit Information Market Study[7] make a real difference to credit access. Vulnerable consumers cannot wait. There are 4.6 million individuals with at least one county court judgment (CCJ) outstanding.[8] The impact of CCJs on finances can be mitigated. Members of the UK Regulators Network (UKRN) should require regulated firms to notify the courts when a CCJ has been 'satisfied',[9] and provide details of CCJs that have been partially settled to the Registry Trust.[10] The FCA should require credit reference agencies and lenders to adjust credit scores to take into account satisfied and partially settled CCJs.

Dealing with economic abuse and coerced debt Some 1.6 million UK adults experienced coerced debt in the past 12 months, mostly involving consumer credit.[11] Government should prioritise agreeing a mechanism with creditors, Registry Trust, and credit reference agencies to remove CCJs resulting from coerced debt from the Register of CCJs and from credit files. Allowing these CCJs to stay on the Register is grossly unfair and penalises people who are already victims of abuse.

Access to credit Reforms to CCJs and credit scoring should help people repair their finances but more needs to be done to expand access to affordable credit. It will be years before the promising No Interest Loans Scheme (NILS)[12] makes an impact. In the meantime, government and civil society should prioritise the roll out of deduction based loans and payroll savings schemes loans provided by credit unions.

Building savings and financial resilience Research shows that credit union workplace payroll savings schemes are effective at helping low-medium income workers build financial resilience, reducing financial anxiety and enhancing financial well-being, and expanding access to affordable loans.[13] The potential for opt-out payroll savings, built on similar principles as pensions autoenrolment, is currently being explored.[14] We cannot pin our hopes on government agreeing to introduce opt-out schemes. But, even if government does introduce opt-out payroll savings, the lessons of the implementation of autoenrolment shows it will clearly be a long time before schemes are up and

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[7] The Credit Information Market Study, set up to improve the quality of credit information used in making lending decisions, commenced nearly six years ago. MS19/1: Credit Information Market Study | FCA

[8] Registry Trust A New Approach To Data

[9] For a CCJ to be marked as satisfied the consumer has to settle the debt and inform the courts with proof of payment. It would be easier if the creditor just informed the courts that the debt has been settled. We are aware that some firms do proactively inform the courts of a satisfied CCJ. But, this is not a requirement.

[10] Registry Trust is the non-profit which operates the official statutory Register of Judgments, Orders, and Fines for England & Wales on behalf of the Ministry of Justice, and maintains similar Registers for Scotland, Northern Ireland, Republic of Ireland, Isle of Man, and Jersey by agreement with the relevant authorities.

[11] Too close to home - StepChange Debt Charity

[12] No Interest Loan Scheme - Fair4All Finance The NILS initiative highlights how slow things move on financial inclusion initiatives. Following campaigns by civil society, the then government committed to a feasibility study in the Autumn 2018 Budget Statement. A pilot study has been running since November 2022. Two evaluation reports were published in 2023 and 2024. A full evaluation will be conducted in 2025 and 2026. Even if the full evaluations confirm the early positive results it will clearly be years before the initiative has a meaningful impact.

[13] Getting Workforces Savings-Payroll Savings with Credit Unions | The Financial Inclusion Centre, New research shows deduction lending adds up for low income borrowers and lenders | The Financial Inclusion Centre

[14] Workplace emergency savings - NEST Insight Unit

running. We cannot afford to wait for that. In the meantime, the Government should mandate that all government departments and public sector organisations offer payroll savings to employees, and work with employers' organisations to persuade the 20 largest employers in each UK region do the same. Debt advice charities could start to 'nudge' clients coming off a debt repayment plan to open a credit union savings account. Social housing providers could establish savings with rent schemes to 'nudge' residents into regular savings when paying rent. If opt-out payroll savings does come in, then the ground will have been prepared. If not, then at least progress will have been made.

Focus on distribution There are many good ideas already available to promote inclusion and resilience (eg. payroll savings, credit union and CDFI loans, insurance with rent schemes, and home improvement finance schemes to improve energy efficiency of homes[15]). The challenge is how best to ensure these products and services reach the right people. We urge funders to focus more on supporting initiatives to distribute products and services to underserved households.

Access to banking/cash Banks and building societies have closed 6,303 branches since January 2015, a loss of 64% of the branches that were open at the start of 2015.[16] The number of free-to-use ATMs has fallen sharply, down by over 17,000 or nearly one-third (32%) from the peak in 2017.[17] The network of Banking Hubs[18] should be expanded urgently. Government and the FCA should require regulated firms and banking infrastructure providers to increase the number of ATMs which allow customers to withdraw cash without needing a bank account or ATM card.

Insurance fairness and access Over 20 million adults pay insurance premiums in instalments (known as premium finance); 79% of adults in financial difficulty have used the product.[19] The average yearly rate charged on the amount of money borrowed ranges between 20 to 30%, compounding the problems for financially vulnerable consumers. Ideally, the FCA should require firms to charge the same for insurance paid for upfront and in instalments. At the very least, the FCA should cap the premium charged on instalment insurance.

Expanding access to debt and money advice Over eight million people need debt advice, with a further 12.6 million at risk of needing advice as they are struggling financially.[20] Yet, only 1.7 million receive debt advice each year.[21] 4.6 million have at least one CCJ and could do with support on repairing their finances. Additional resources should be provided to debt advice charities and charities who work on the front line providing advice on social security issues. A new funding settlement for debt advice is urgently needed based on the 'polluter pays' principle.

Treating customers fairly/corporate accountability The UK has nowhere near the level of transparency on financial inclusion available in the USA through the Community Reinvestment Act[22] and Home Mortgage Disclosure Act .[23] The FCA should produce regular financial inclusion audits, and

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15 Home Improvement Finance Schemes – Financial Inclusion Centre working with local government | The Financial Inclusion Centre

16 This is before the most recent announcements have been taken into account. Bank branch closures: is your local bank closing? - Which?

17 The figures were 37,361 in 2024 and 54,600 in 2017. See: LINK / Consumers withdrew £79.5bn from LINK ATMs in 2024 and Statistics on access to cash, bank branches and ATMs - House of Commons Library

18 Cash Access UK - Hubs

19 FCA launches premium finance market study alongside new Government insurance taskforce | FCA

20 The UK's debt landscape in 2023 | Money and Pensions Service

21 Consumer debt and mental health - POST

22 Federal Reserve Board - Community Reinvestment Act (CRA)

23 Home Mortgage Disclosure Act (HMDA) Data | Consumer Financial Protection Bureau

report to Parliament and government on the inclusion performance of UK financial services. The FCA should produce a baseline report with comprehensive data on financial exclusion in different sectors within one year and produce regular updates. Greater transparency is needed on how creditor firms such as lenders and utilities use third party debt collection and debt purchasing firms to offload or collect problem debt. CCJs now tend to be enforced using bulk claims.[24] UK Regulators Network (UKRN) member regulators should require regulated firms and third party debt firms to disaggregate bulk CCJ claims and supply the names of the original creditor firm to Registry Trust to be included on the central register of CCJs. UKRN regulators should publish data on how many CCJs individual firms have enforced each quarter.

The role of the FCA The FCA recently published analysis of firms' treatment of vulnerable consumers and compliance with the Consumer Duty outcomes.[25] The Consumer Duty is meant to be the FCA's flagship consumer protection initiative yet most firms were unable to show how they effectively monitor and take action on outcomes for vulnerable consumers. The FCA is market regulator, not a social policy regulator so there is a limit on what it can do on financial inclusion. Nevertheless, it could do more. In addition to providing much greater transparency, the FCA should prioritise enforcement against firms who are not treating customers fairly as required by the Consumer Duty.

Investigation into potential systemic discrimination in financial services The extent of exclusion faced by specific groups of people with protected characteristics or who live in the most disadvantaged areas of the UK suggests that what we observe is arguably systemic discrimination. The FCA should investigate whether the level of exclusion can be explained by income disparities between specific consumer populations, the application of other conventional risk factors by the market, or is due to other systemic factors. The FCA should also determine whether conventional risk factors are fit for purpose, are a fair reflection of the risk inherent in providing financial services to excluded groups, and 'justify' the risk premium included in the cost of products. Note that even if any investigation concluded the level of exclusion was 'justified' by risk factors, this would not remove the need for action. It would reinforce the fact that the market operating 'rationally' is unable to meet the needs of significant numbers of consumers and that major interventions are needed to meet their core financial needs.

Solutions to avoid Just as important as doing the right things, is avoiding the wrong solutions. Weakening consumer protection to encourage the market to sell products and services to more consumers,[26] or greater financialisation of social issues,[27] are not sustainable long term solutions. History tells us that relying on market led initiatives or hoping that AI/tech solutions will encourage the market to deliver is not a realistic approach. Addressing exclusion and discrimination needs policy and regulatory interventions to correct market behaviour and fix broken markets.

MEDIUM-LONG TERM SOLUTIONS, STRUCTURAL REFORMS

The sooner policymakers and regulators accept that left to its own devices there is a limit to what the market can do and that structural reforms are needed, the better. We are proposing the

[24] Instead of submitting large numbers of individual CCJs to the courts, creditors nowadays tend to submit claims in bulk

[25] https://www.fca.org.uk/publications/good-and-poor-practice/delivering-vulnerable-customers#lf-chapter-id-consumer-support

[26] See our submission to the FCA's Advice Guidance Boundary Review which we believe will result in a weakening of consumer protection without achieving the desired aims [FCA Advice/Guidance Boundary Review CP24/27 | The Financial Inclusion Centre]

[27] For example, the use of social impact finance that expects to generate a market return from tackling social issues. [Social Impact Finance | The Financial Inclusion Centre]

following medium-long term solutions and structural reforms to promote sustainable inclusion. More detail can be found on page 23.

UK Community Reinvestment Act/Fair Banking Act Government should introduce a UK version of the US Community Reinvestment Act (CRA) to ensure that major finance and tech firms play a full role in promoting financial inclusion and resilience, and sustainable economic growth in all UK regions. At the very least, a Fair Banking Act should be introduced.[28]

Financial Inclusion Levy A financial inclusion and economic regeneration levy should be applied to major finance and tech firms to support sustainable financial inclusion initiatives.

National Financial Advice Service The role of the Money and Pensions Service (MaPS) should be expanded to create a National Financial Advice Service to meet the financial advice needs of people the market cannot serve, and promote financial learning across the UK.

National Financial Services Government should establish a new body called National Financial Services to meet the financial product needs of people the market cannot serve. A pool of funding should be created with resources provided by government, the Bank of England, civil society funders and grantmakers, and proceeds from a financial inclusion and regeneration levy. This arrangement would fund two schemes: i. an Emergency Support and Loans Scheme to provide grants and support no or low interest bridging loans for eligible citizens; and ii. a Self-employed Support and Loans Scheme aimed at the self-employed. NFS would also coordinate the support for the non-profit lending sector, develop alternative insurance options and oversee the operation of Banking Hubs.

Supporting the non-profit lending sector New mechanisms are needed to support the growth of the non-profit lending sector. Government should create National Savings and Investment (NS&I) Social Lending Bonds and support the development of Local Authority Community Lending Bonds to allow social purpose investors and local communities to provide longer term capital to the non-profit lending sector. The mandate of the National Wealth Fund should be changed to support affordable lending and economic regeneration, and to work with the PWLB lending facility[29] to support local authority Home Finance Improvement Schemes.[30]

Affordable Lending Gateway Social entrepreneurs should establish the Affordable Lending Gateway, a single on-line lending platform to match non-profit lenders with potential borrowers. A nationwide 'white-label' option should be available.

Inclusive insurance models Access to affordable insurance is a priority for financial resilience. A longer term solution is needed for people the market cannot or will not serve. There are only two realistic options. Government and regulators could mandate the provision of basic low cost insurance using a 'carousel' system where a panel of insurers would be required to take turns insuring excluded consumers. Alternatively, government could establish 'Inclusion Re', similar to Flood Re,[31] where insurers would be required to pay a levy into a fund to underwrite higher risk

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[28] For details on the FBA see Fair banking for all - Finance Innovation Lab %

[29] The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury Local Authority Lending

[30] Home Improvement Finance Schemes – Financial Inclusion Centre working with local government | The Financial Inclusion Centre

[31] Flood Re - A flood re-insurance scheme

basic insurance policies. Distribution is key. Trusted intermediaries such as housing associations should be involved in enabling access to affordable insurance.

Ethical rent-to-own schemes The problem with rent-to-own schemes is not the model per se. Local authorities, social housing providers, non-profits, and social impact funders should collaborate on developing a network of ethical rent-to-own schemes.[32]

Market Delivery Agency Funders should fund a non-profit entity to take the lead on: reaching underserved households; developing alternative financial products and services; setting up relationships with employers, social housing providers, local authorities and others who can extend distribution of products and services (for example, setting up payroll deduction schemes); and, more generally, promoting and supporting the growth in non-profit financial services.

Digital Pound Government and the Bank of England are considering the case for a central bank digital currency (CBDC) or 'digital pound' (D£).[33] So far, the ambition for the digital pound is limited. The market would be allowed to determine which services are offered, and to whom, so it is unlikely to do much to address exclusion. Government and Bank of England should expand the remit of the work on the digital pound and make promoting inclusion and regeneration a priority.

Addressing social policy factors There are other critical contributory factors to financial vulnerability which we do not address in this paper. Millions of people have no or little financial cushion to fall back on in the event of losing their job or experiencing unexpected falls in their income, and are unlikely to ever build such a cushion. So there is a case for examining the reform of the social security safety net. There is much more to be done to ensure financial security in retirement for millions who are poorly served by the current pensions system. The cost of funding long term care is a major cause of financial vulnerability and anxiety for many and, along with the closure of defined benefit pension schemes, is part of a large scale transfer of risk to individuals.[34] But, those are major social policy issues implying a more direct role for the state and are outside the scope of the Financial Inclusion Strategy, which focuses on policy areas where people are expected to use markets to meet their core financial needs.[35] However, let's hope the Government and civil society do not neglect these critical social policy issues. It is very difficult to see how we can create a sustainable strategy for promoting financial resilience and security without considering the role of the state and its interaction with market based provision.

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[32] Better and Brighter-Responsible Rent to Own Alternatives | The Financial Inclusion Centre

[33] This would be an electronic form of cash issued by the Bank of England with 'digital wallets' provided by companies. What is the digital pound? | Bank of England

[34] Creating a new long term framework to enable individuals to better manage future risks must be a priority. At the time of writing, the current turmoil on the global financial markets is a stark reminder that millions of people are now required to save for retirement via pension schemes that are much more exposed to financial market risks. The ageing population and changing demographics pushes up the costs of providing decent social care putting pressure on public finances. Policymakers have yet to develop a sustainable settlement between the individual and the state to manage the risks of funding social care.

[35] There is a distinction between consumer policy (where people use markets to meet their needs) and social/public policy (where the state plays a direct role in meeting needs). The state does establish the legislative and regulatory framework which governs what is expected of markets and determines consumer rights. It can also fund services like debt advice or provide financial support for financial inclusion programmes. But, those interventions are very much about supporting consumers to use markets for their needs, not the state directly meeting those needs.

KEY DATA ON FINANCIAL EXCLUSION

There is a significant amount of data and research available on the extent of financial vulnerability and exclusion, and which groups are particularly adversely affected by the way financial services work.

The FCA's Financial Lives Survey[36] is a helpful research resource for researchers and campaigners working on financial inclusion and economic and social justice issues. The FCA says that nearly 25 million UK adults (47% of adults) show at least one characteristic of vulnerability.[37] But, that number is too big to be helpful; it is not possible to act effectively with numbers on that scale.

If the NFIS is to have the greatest impact then it is important that interventions and solutions are focused on those households experiencing the worst financial vulnerability and exclusion. Drilling down into the Financial Lives Survey provides much useful data on which groups are most affected by financial vulnerability and exclusion. We summarise some of the key findings here.

Looking at the experience of Black and minoritised ethnic groups:

- Minority ethnic group adults are over 1.5 times more likely to say they are not coping financially or finding it difficult to cope, compared with adults not in minority ethnic groups (52% v 33%).
- Minority ethnic groups are more likely to need debt advice.[38]
- Black (53%) and Asian (52%) adults are less likely to have a savings account than white adults (74%). 32% of minority ethnic group adults have no general insurance policies compared with just 13% of adults not in minority ethnic groups.
- Black adults are: more likely to have low financial resilience than the national average (44% v 24%); 2X as likely to be in financial difficulty as white adults (16% v 7%); 2X as likely as the national average to have high-cost credit or loans (20% vs. 10%); more likely to be rejected when they applied for financial products (23% v 14% for white applicants); more likely to have avoided applying for a financial product in the past two years (24% v 12% for white applicants); and much less likely to have any private pension – 60% had a private pension compared to 76% of white adults.

People with a disability[39] also experience very high levels of exclusion. People with a disability are:

- 2X as likely as non-disabled people to say they could last less than one month without having to borrow or ask family or friends for help if they lost their main source of income (36% v 18%).
- 2X as likely to say keeping up with credit commitments and domestic bills is a heavy burden (25% v 12%); 2.5X as likely to have fallen behind with or missed payments on credit commitments or bills (16% v 6%) during the relevant survey period, and to be twice as likely to be overindebted (31% v 15%).
- Much less likely to have any form of private pension (accumulation) (41% v 61%), nearly 2X as likely to say their state pension will be their main source of income in retirement (53% v

[36] See: Financial Lives 2022: Key findings from the FCA's Financial Lives May 2022 survey financial-lives-survey-2022-tables-volume-2-attitudes.xlsx financial-lives-survey-2022-tables-volume-3-product-ownership.xlsx

[37] Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living | FCA

[38] https://maps.org.uk/en/media-centre/financial-wellbeing-blog/2024-financial-wellbeing-blogs/the-2023-UK-debt-landscape

[39] As defined by the government's harmonised standard questions for capturing disability in surveys.;

29%), and to be more worried that they will not have enough money to cope in retirement (35% v 25% net agree).
- More likely to say they find it hard to find financial products and services suitable for their needs (15% v 9% - 20% v 13% if exclude don't knows and prefer not to say), and overall more likely to say that low capability impacts on their ability to find suitable financial products or services (50% v 30%).

Given that exclusion is so much linked to incomes, it is not surprising that we see higher levels of exclusion in local areas with high levels of deprivation. The Financial Lives study compares product holdings in the 10% most deprived areas (as measured by indices of multiple deprivation) with the 10% least deprived areas.[40] The contrast is stark. Respondents in the most deprived areas, compared to those in the least deprived areas are:

- Much more likely to hold some form of high cost credit (19% v 5%).
- Much less likely to hold any savings product (50% v 17%).
- Less likely to hold any form of pension (for accumulation – ie. saving for retirement) (45% v 62%).
- Much less likely to have any form of general insurance (33% do not against just 7% in the least deprived areas).
- Much more likely to have a county court judgment (CCJ).[41]

Note that similar points can be made about other groups such as carers and single parents (by far the majority women)[42] and private renters who also experience serious disadvantages because of the way the market works.

The Financial Lives recontact survey published in April 2024[43] reported that 28% of all adults said that they were not coping financially or finding it difficult to cope. Fifty five percent of single parents reported they are not coping financially or finding it difficult to cope, compared to 39% of couples with children. Fifty percent of renters, compared to 24% with a mortgage, said the same.

According to research, 16% of adults in the UK (8.7 million) say they have experienced economic abuse. On average, a survivor of economic abuse in debt owes £3,272 with one in four having debts in excess of £5,000 (24%). This adds up to £14.4 billion of UK debt directly due to economic abuse.[44] Other research estimates that 1.6 million UK adults have experienced coerced debt in the last 12 months, most commonly involving consumer credit.[45]

What lessons can we draw from data such as this? The obvious lesson is that specific groups in society and local areas have significantly lower levels of financial resilience and much more

[40] financial-lives-survey-2022-tables-volume-3-product-ownership.xlsx

[41] Analysis by Registry Trust shows that the rate of CCJs is around 2.5 times higher in the lowest income areas than in the highest income areas, and 4 times higher in areas with the highest levels of overindebtedness A New Approach To Data . Across the UK, there is one CCJ for every 14 people. In the North East, it is one CCJ for every 10 people. The chances of having a CCJ in the North East is 44% higher than would be expected on population size alone. However, the South East region saw the fastest growth in CCJs, 54%, over the past 10 years. Decoding Debt: Unpacking The Landscape Of Monetary Judgments

[42] Of the total of 2.9 million lone parent families, 2.4 million (84%) are headed by women Families and households in the UK - Office for National Statistics 59% of the 5 million unpaid carers in England and Wales are women. One in five of women aged 55-59 are providing unpaid care. Women were significantly more likely to provide unpaid care than men in every age group up to 75 to 79 years; although, from 80 men were more likely to do so. Unpaid care by age, sex and deprivation, England and Wales - Office for National Statistics

[43] Data as at January 2024, published April 2024 financial-lives-cost-of-living-jan-2024-recontact-survey-findings.pdf

[44] Know Economic Abuse, Refuge https://refuge.org.uk/wp-content/uploads/2020/10/Know-Economic-Abuse-Report-2020.pdf

[45] Too close to home - StepChange Debt Charity

financially vulnerable, and are experiencing much higher levels of exclusion than the general population. And this is before the impact of intersectionality is factored in.

Moreover, in the case of economic abuse or coerced debt, the financial system penalises people for being victims of abuse; they are the ones made to pay for being victims of criminal acts.

We would suggest that, while there are interventions which could benefit large numbers of people (eg. workplace payroll savings) and should be a priority for implementation, the NFIS and the Committee should target its efforts on addressing the significant disadvantages experienced by specific groups or focus interventions on those local areas with the highest levels of exclusion and lowest resilience.

The other main conclusion is the market as currently structured really isn't working for financially vulnerable households and specific groups in society. As explained below, one of the main causes of financial exclusion is economic related. The fact that the specific groups highlighted above are more likely to be on low incomes will explain much of the exclusion they experience.

But, the extent to which Black and other minority ethnic groups, and people with disabilities who are supposed to have protected characteristics, face financial exclusion (even if that exclusion is due to their low incomes or self-excluding because they don't think markets are for them) cannot be ignored.

There is a strong case for saying that what we are seeing goes beyond financial exclusion and is arguably systemic discrimination. Note, we are not claiming that firms are consciously discriminating against specific groups. That's not the point. The point is that inherent market structures and the organising principle which determine how retail financial services treat consumers result in millions of consumers from specific groups experiencing *much* worse harm than other groups of consumers in society. In other words, the system (in this case the market for financial services) is not set up to meet their needs.

If policymakers insist on people using commercial financial services to meet their core financial needs, the sheer scale of exclusion experienced by specific groups surely calls for a more robust set of economic and social justice legislative and regulatory interventions. The evidence of history tells us that trying to create the conditions to encourage markets to serve the most affected groups will not be effective.

THE CAUSES OF FINANCIAL VULNERABILITY AND EXCLUSION

To understand the type of interventions and solutions required, it is important to understand the primary causes of financial vulnerability, exclusion, and arguably discrimination. Others will have different models to explain the causes of but at FIMC we identify the following factors:

- poverty and other economic factors such as low or irregular incomes
- the basic nature of the market which profiles and segments people according to profitability and risk[46]
- embedded market inefficiencies in mainstream financial services which limit the number of consumers the market can serve on mutually beneficial terms[47]
- limited availability of more appropriate alternative options
- demand side factors/personal circumstances[48].

These factors can create a vicious cycle. For example, market factors will have a greater negative impact on lower income households, forcing them to use more expensive products or denying them access altogether. This can then exacerbate the problems they experience making ends meet which in turn, can cause or exacerbate mental health issues, and affect ability to earn a decent income and so on.

Tackling poverty and economic conditions is a matter for government policy. The FCA is a market regulator, not a government department or social policy regulator. It cannot do anything about levels of wages or social security, and so on. But, the FCA could do more to make markets work better for some people within excluded groups, see below.

We could, of course, try to improve consumer financial capability and awareness so that they engage more with the market and 'include themselves'. Consumers need to be informed of their rights. Public awareness campaigns do have a role to play. We want consumers to be more aware of the benefits of saving and so on.

But, it has to be acknowledged that financial education interventions do not have a great track record in persuading enough consumers to take the right course of action. This is why we needed pensions autoenrolment and why interventions such as payroll savings (which make use of trusted intermediaries to trigger action) are so important, more below.

Moreover, financial education interventions are not very effective at improving consumer capability to such an extent that this exerts a positive influence on corporate behaviours to drive financial inclusion. So, the focus should be on tackling the supply side and market based causes of exclusion and discrimination. Targeted interventions to change market behaviour would have the greatest 'return on intervention'. Changing the behaviours of a small number of large financial institutions

[46] Markets profile and segment consumers according to risk and profitability. This is a significant contribution to exclusion and discrimination. Great hopes are pinned on technology bringing more consumers into the market. But, tech and big data actually makes it easier for firms to profile and segment consumers at scale so potentially exacerbating exclusion and discrimination.

[47] There is certainly no shortage of choice in financial markets, with fierce competition, and constant 'innovation'. That is not the same as consumers having access to socially useful products and services that enhance their financial wellbeing. Sometimes too much choice is as bad as too little choice as it increases supply chain costs. Spurious choice causes confusion. Sometimes less is more. Moreover, to be precise, the market will serve most people – if the price is right. But, that price may not be right for consumers as the example of payday lending showed.

[48] For example, health issues, low levels of financial capability and engagement, lack of consumer confidence and trust, and so on.

with millions of customers is obviously a more effective way to improve the overall welfare of consumers.

So, the FCA could ensure that markets are more efficient and products are cheaper so that more consumers could afford to be in the market. The Consumer Duty, the FCA's flagship reform, could be deployed to much better effect. But, even if markets were as efficient as possible there would still be a group of consumers the market just would not serve because they are not commercially attractive enough.

Commercial for-profit financial institutions are not charities. The primary duty of boards and executives of financial firms is to satisfy the interests of their shareholders, and the market allows firms the opportunity to maximise value to satisfy those interests.

Conventional economic theory holds that, if the right conditions are created, the dynamic of market competition will ensure a mutually beneficial relationship between firms and consumers. However, in the real world, this mutually beneficial state created by competition dynamics really only applies to a minority of better off, empowered, confident, and capable consumers.

For financially vulnerable, 'high risk', or unprofitable lower income households, there is a concern that some firms try to exploit consumer vulnerability to extract as much value as is possible (or allowed by regulation) from a commercial relationship; or that the market generally is just not interested in serving their needs. This is not a criticism of markets, it is just how markets work.

There is much that could and should be done to help those households who can, build financial resilience and engage effectively with well-regulated, consumer-focused financial services. Workplace payroll savings schemes and deduction-based loans with credit unions are a case in point.

But, if policymakers are going to continue to expect excluded or lower income consumers to use a market solution to meet their core financial needs, then surely policymakers and regulators should acknowledge the commercial reality and nature of markets.

The approach which relies on changing the behaviours and attitudes of excluded consumers so they conform to the demands of markets, or 'creating the conditions' for market competition to bring people into the market, just hasn't worked. If we are serious about exclusion and discrimination, it is time to use policy and regulation to change markets so they meet the needs of consumers.

Or, if there is no appetite for that, at least we should be honest about the fact that markets cannot serve, or aren't interested in serving, millions of consumers and we need to develop alternative solutions. And we need to focus interventions on the most financially vulnerable, and those most affected by exclusion and discrimination.

INTERVENTIONS AND SOLUTIONS

In terms of priority financial needs, interventions and solutions are needed to: support and protect people in immediate financial difficulty or at risk of economic abuse; help people repair their finances in the short term and improve access to fair and affordable credit; build savings and financial resilience; expand access to cash for the most financially vulnerable groups; and provide access to fair and affordable insurance.

To meet those priority financial needs, policymakers and regulators should:

i. intervene to make commercial retail financial services work better for underserved consumers;
ii. provide further support for non-profit organisations who, given the opportunity, could serve more consumers; and
iii. work with civil society to develop solutions for consumers whose needs cannot be met by the market.[49]

In the latter case, we need to face facts. There are only two realistic options. Government and regulators would need to mandate market provision and access and/or support the development of alternative non-market solutions for people the market cannot or will not serve.

Critically, government, regulators, and civil society should urgently develop a data strategy to target interventions and solutions effectively in areas of greatest need. For example, Registry Trust provides very granular data on which local areas have the highest numbers and density of county court judgments (CCJs). This is a very clear indicator of financial vulnerability at local level and would allow policymakers, regulators, and civil society to target interventions such as debt advice with more precision.

QUICK WINS, PRIORITIES

We have identified a number of interventions and solutions which could deliver quick wins or at least meaningful progress on financial inclusion goals.

Minimising the impact of 'debt events', repairing finances and credit scores

Open Banking may make a significant positive impact to credit inclusion in future, but so far it has not made much difference. Indeed, if anything it appears to allow firms to profile and segment consumers into commercially attractive and unattractive groups with even greater efficiency.[50]

Similarly, structural reforms to credit scoring could aid credit excluded groups. But, it will be some time before any new industry and regulatory standards can even be agreed, never mind make any real difference to consumers.

The Credit Information Market Study began nearly six years ago, in June 2019. To be fair, the work was paused in April 2020 owing to the Covid pandemic and restarted in July 2021. In December 2023, the FCA published its Final Report for the Credit Information Market Study.[51] The report

[49] The market will provide anything - at a price. But, that price may not be worth paying for consumers. As we have covered elsewhere, true financial inclusion isn't just about the numbers of people with financial products. It is whether those products enhance consumer welfare. Payday lending was a case in point. The fact that this market has shrunk has been positive for consumers.

[50] Bank of England Staff Working Paper No. 1,059

[51] MS19/1: Credit Information Market Study | FCA

contained a set of remedies intended to improve the quality of credit information in the market, and industry-led remedies will be taken forward by the new governance body in the market with FCA input. The FCA established an Interim Working Group (IWG) to develop the new Credit Reporting Governance Body.

As with the no interest loans scheme (NILS) initiative, see below, it is clear that a very long time will have elapsed before this important credit reporting initiative actually leads to meaningful changes that benefit consumers. The IWG is addressing just the governance remedy and is already behind schedule in producing reports on potential new governance arrangements.

We hope the Financial Inclusion Committee does not conclude that action to improve credit information should wait for the FCA to make progress. Vulnerable consumers do not have the luxury of waiting.

In the meantime, there are a number of changes which could be made now to improve data sharing and credit scoring which would help affected groups. Critically, we need urgent measures to minimise the impact of 'debt events' such as county court judgments (CCJs)[52] which affect consumers' credit scores. CCJs stay on the Register of Judgments[53] and credit reports for six years although the impact does lessen over that period. Nevertheless, getting a CCJ can have a cliff edge effect on credit scores which then takes longer to repair. Minimising the steepness of that cliff edge could make it easier for consumers to recover and repair their finances.

It is important for the Financial Inclusion Committee to recognise that, while this is ostensibly an issue about *financial* matters, the treatment of consumers by non-financial firms (eg. utilities, telecoms etc) has a significant impact on financial inclusion and vulnerability. Small changes could be made to the way regulated firms (not just in the financial sector) treat consumers with a county court judgment (CCJ) and make an important difference.

Government and regulator members of the UK Regulators Network (UKRN) should require regulated firms to inform the courts when an outstanding CCJ has been 'satisfied', not leave it to the consumer to do so which is the case now.[54] The FCA should issue guidance requiring lenders and other financial institutions that use CCJs to treat satisfied CCJs differently in credit scoring from CCJs that have not been settled.

Government and UKRN member regulators should require regulated firms to provide data on CCJs which have been *partially* settled to Registry Trust to be added to the Register of Judgments. The FCA should require these partial settlements to be treated differently in credit scoring.

Addressing economic abuse/coerced debt

Much is being done, and more can be, to identify economic abuse/coerced debt and provide support to victims. But, urgent measures should also be taken to mitigate and, where possible, reverse the

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[52] CCJs stay on the register of judgments and credit reports for six years although the impact lessens over that period. Nevertheless, getting a CCJ can have a cliff edge effect on credit scores which then takes longer to repair. Minimising the steepness of the cliff edge could make it easier for the consumer to recover.

[53] See: What-is-a-CCJ

[54] For a CCJ to be marked as satisfied the consumer has to settle the debt and inform the courts with proof of payment. It would be easier if the creditor just informed the courts that the debt has been settled. We are aware that some firms do proactively inform the courts of a satisfied CCJ. But, this is not a requirement.

impact of a CCJ being registered as a result of coerced debt. We do not know how many CCJs have resulted from economic abuse or coercive debt. But, there are 4.6 million people with at least one CCJ registered against them.[55] So, it is reasonable to assume that a significant number of those will be a result of economic abuse or coerced debt.

The Serious Crime Act 2015 made controlling or coercive behaviour in intimate or family relationships a criminal offence.[56] Economic abuse is included in a list of the types of behaviour associated with control or coercion. Economic abuse is further recognised as a type of abuse under the Domestic Abuse Act 2021.

Clearly, there is a case for writing off debts resulting from economic abuse and coerced debt. UKRN member regulators should require regulated firms to write off coerced debts. Of course, some sort of verification process would be needed. This could be done by allowing non-profit debt adviser verifying to the creditor that a debt has resulted directly from coercion or indirectly from economic abuse.

However, writing off debts will not address the impact of a CCJ if that remains on the Register of Judgments and credit files. Government should urgently work with stakeholders to establish a mechanism for removing (or at very least marking) CCJs resulting from economic abuse and coerced debt from the register and credit files. UKRN regulator members should require regulated firms to not penalise consumers for a CCJ resulting from economic abuse and coerced debt. The FCA should require credit reference agencies (CRAs) to remove the impact of these CCJS from credit files and scores.

Access to credit

Quick reforms to credit scoring and the treatment of CCJs should help people repair their finances. Combined with the FCA issuing guidance to ensure the use of credit scoring becomes more inclusive, this should help bring some excluded consumers back into the mainstream credit market.

However, this still leaves the issue of what to do about consumers the market cannot or does not want to serve. Again, there are a number of solutions with the right political will could be expanded fairly rapidly.

It will be some time before the promising no interest loans scheme (NILS) is rolled out and makes any real difference to credit-excluded consumers.[57] Financially vulnerable households cannot afford to wait for the wheels of policy making to turn as slow as they do.

In the meantime, the Government should prioritise supporting the quick roll out of credit union deduction based lending schemes. Deduction based loans are loans where the repayments are

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[55] A New Approach To Data

[56] https://survivingeconomicabuse.org/i-need-help/economic-abuse-and-the-law/prosecuting-an-abuser/

[57] No Interest Loan Scheme - Fair4All Finance The NILS initiative highlights how slow things move on financial inclusion initiatives. Following campaigns by civil society, the then government committed to a feasibility study in the Autumn 2018 Budget Statement. A pilot study has been running since November 2022. Two evaluation reports were published in 2023 and 2024. A full evaluation will be conducted in 2025 and 2026. Even if the full evaluations confirm the early positive results it will clearly be years before the initiative has a meaningful impact.

deducted automatically from benefits or payroll. Research has found clear evidence that payroll and benefit deduction lending delivered appropriately is good for borrowers, lenders, and employers. [58]

Moreover, prioritising the expansion of credit union payroll savings schemes would widen access to fair and affordable loans for low-medium income workers.

Savings and financial resilience

Research shows that credit union workplace payroll savings schemes are effective at helping low-medium income workers build financial resilience, reducing financial anxiety and enhancing financial well-being, and expanding access to affordable loans.[59]

Work is currently being done on opt-out payroll savings, built on similar principles as pensions autoenrolment.[60] We cannot pin our hopes on government agreeing to introduce opt-out payroll schemes. Even if government does introduce opt-out payroll savings, the lessons of the implementation of autoenrolment shows it will clearly be a long time before schemes are up and running. We cannot afford to wait for that.

In the meantime, the Government should mandate that all government departments and public sector organisations offer payroll savings to employees, and work with employers' organisations to persuade the 20 largest employers in each UK region do the same. Debt advice charities should start to 'nudge' clients coming off a debt repayment plan to open a credit union savings account. Social housing providers should establish savings with rent schemes to 'nudge' residents into regular savings when paying rent. If opt-out payroll savings does come in, then the ground will have been prepared. If not, then at least progress will have been made.

The Government and FCA should issue clarification that intermediaries such as employers, non-profit debt advice charities, and social housing providers do not need to be regulated to offer access to payroll savings schemes and to communicate the benefits of schemes to employees, residents, or clients.

Focus on distribution

There are many good ideas already available to promote inclusion and resilience (eg. payroll savings, credit union and CDFI loans, insurance with rent schemes, and home improvement finance schemes to improve energy efficiency of homes[61]). The challenge is how best to ensure these products and services reach the right people.

There are many organisations committed to economic and financial inclusion who have established direct relationships with underserved and excluded households. Housing associations, local authorities, employers, and trades unions are good examples. These organisations can provide distribution channels for inclusion products and services, and produce economies of scale. They can also use their collective power to negotiate better deals from commercial providers. We urge

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[58] New research shows deduction lending adds up for low income borrowers and lenders | The Financial Inclusion Centre This includes payroll savings schemes based loans so expanding access to payroll savings would benefit access to affordable credit, too.

[59] Getting Workforces Savings-Payroll Savings with Credit Unions | The Financial Inclusion Centre, New research shows deduction lending adds up for low income borrowers and lenders | The Financial Inclusion Centre

[60] Workplace emergency savings - NEST Insight Unit

[61] Home Improvement Finance Schemes – Financial Inclusion Centre working with local government | The Financial Inclusion Centre

funders and philanthropists to focus more on supporting initiatives that develop these channels and partnerships to take these good ideas to market.

Social entrepreneurs and funders should establish an entity to take the lead on: developing the Affordable Lending Gateway and other services such as ethical rent-to-own schemes (see below); setting up relationships with employers, social housing providers, local authorities and others who can extend distribution of loans and other products and services (for example, setting up payroll deduction schemes); and, more generally, promoting and marketing alternative lending and financial services.

Access to banking and cash

Banks and building societies have closed 6,303 branches since January 2015, a loss of 64% of the branches that were open at the start of 2015.[62] This is before the most recent announcements have been taken into account. The number of free-to-use ATMs has fallen sharply, down by over 17,000 or nearly one-third (32%) from the peak in 2017.[63]

The network of Banking Hubs[64] should be expanded as quickly as possible. Greater transparency can and should be provided on how well individual banking institutions support Banking Hubs. Funding for Banking Hubs should be related to banks' performance in supporting local communities. Provision should be made to allow for the role of Banking Hubs to be extended to provide a wider range of services including money advice.

Access to cash remains vital for local communities and for people with disabilities. Government should mandate that retail outlets continue to allow payment by physical cash until such time that digital alternatives are genuinely inclusive (an access to cash 'backstop').

Special measures are needed for the most financially vulnerable and excluded groups such as refugees and asylum seekers who may not have any form of bank account but need access to cash. There are initiatives which allow people to withdraw cash from an ATM without needing a bank account or ATM card. People can receive a code via SMS to a mobile phone which allows them to withdraw emergency cash provided by charities and other support agencies from participating ATMs. However, a minority of ATMs currently allow this arrangement.[65]

Government and FCA should require regulated firms and banking infrastructure providers to increase the number of ATMs making options like this available, with a focus on regions and local areas where need is greatest.

Insurance fairness and affordability

The FCA is currently conducting a market study into premium finance. This is a specialist form of credit sold to insurance customers that allows them to spread the annual upfront cost of insurance

[62] Bank branch closures: is your local bank closing? - Which?

[63] The figures were 37,361 in 2024 and 54,600 in 2017. See: LINK / Consumers withdrew £79.5bn from LINK ATMs in 2024 and Statistics on access to cash, bank branches and ATMs - House of Commons Library

[64] Cash Access UK - Hubs

[65] There are over 37,000 free-to-use ATMs – see above. An example of this service is the CashPerks network. But a minority, 17,000 ATMs, participate in this network. Cash Perks Disclosure: Financial Inclusion Centre Co-Director, Gareth Evans is a founder of CashPerks.

premiums over time, typically in monthly instalments. Paying monthly usually costs more than paying upfront due to interest and commissions/fees charged to consumers.

The FCA estimates that over 20 million adults pay their premiums in instalments on one or more insurance policy and that 79% of adults in financial difficulty have used the product.[66] Financially vulnerable consumers have been affected by rising motor and home insurance prices and, more generally, by the cost of living crisis. There are concerns that the average yearly rate charged on the amount of money borrowed, ranging between 20 to 30%, compounds the problems for financially vulnerable consumers.

Ideally, the FCA should require firms to charge the same for insurance paid for upfront and in instalments. At the very least, the FCA should cap the premium charged on instalment insurance. The FCA should ensure that consumers who have experienced financial harm as a result of practices in the premium finance market get redress as quickly as possible.

Longer term solutions are needed for consumers who need insurance but are not commercially viable for the market, see below.

Improving debt and money advice

MaPS estimates that over eight million people need debt advice, with a further 12.6 million at risk of needing advice as they are struggling financially.[67] Yet, only 1.7 million receive debt advice each year.[68] Some 4.6 million people have at least one CCJ registered against them so could do with support in repairing their finances.

Too often, even those that do seek help do so at a late stage and sometimes take the quickest rather than most sustainable solution. Additional resources should be provided to debt advice charities and charities who work in the front line of providing advice on money matters and rights.

A new settlement for funding debt advice should be introduced urgently to ensure there is sufficient debt and rights advice capacity in the system and that the funding reflects better the source of debt problems. This means in practice requiring utilities, telecoms providers, large landlords, and local government to contribute to funding debt advice on the 'polluter pays' principle. For example, this could be based on the number of CCJs firms and regulated sectors enforce against consumers.

MaPS should use data sources such as the Registry Trust register of CCJs to identify local areas where debt advice is most needed and reach consumers in need of debt advice through awareness raising campaigns.[69]

Treating consumers fairly and corporate accountability

The FCA has recently published a review of how regulated firms comply with the Consumer Duty and vulnerability guidance.[70] The findings were very concerning. Most firms in the FCA's review were

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66 FCA launches premium finance market study alongside new Government insurance taskforce | FCA

67 The UK's debt landscape in 2023 | Money and Pensions Service

68 Consumer debt and mental health - POST

69 Decoding Debt: Unpacking The Landscape Of Monetary Judgments

70 https://www.fca.org.uk/publications/good-and-poor-practice/delivering-vulnerable-customers

unable to show how they effectively monitor and take action on outcomes for customers in vulnerable circumstances.

The FCA should prioritise assessing whether regulated firms are treating excluded consumers fairly and address systemic discrimination as part of the Consumer Duty. The FCA should step up enforcement against firms which are not treating vulnerable consumers fairly as required by the Consumer Duty, see above.

Greater transparency is sorely needed to enforce greater regulatory accountability on financial inclusion performance. The FCA should produce a baseline report with comprehensive data on financial exclusion and discrimination in different financial service sectors within one year of the next meeting of the Committee. Regular follow up reports should then be published to measure progress, with a goal to produce granular data on individual institutional performance within three years.

Government should require all the major sectoral regulators to publish granular data: on the proportion of vulnerable customers individual firms have within their customer base; and the number of county court judgments (CCJs) enforced by individual firms. This data should be used to provide a fairer methodology for allocating the cost of funding free debt advice services on the 'polluter pays' principle.

Creditor firms such as lenders, utilities, and telecoms companies increasingly use debt purchasing and collection firms to deal with outstanding debts. Enforcement of CCJs relating to these debts are carried out by these third party firms using bulk claims. This may make commercial sense. But it also risks allowing creditor firms which may have had poor treating customers fairly and debt support systems policies to shield behind third party purchasers and collectors. It hinders corporate accountability.

Greater transparency is needed on the use of third party debt firms. UKRN member regulators should require regulated firms (original creditors and third parties who are acting on their behalf or purchased debt from those original creditors) to disaggregate bulk claims and supply the names of the original creditors to the central register of CCJs.

The role of the FCA

The FCA is not a social policy regulator, it is a market regulator. It would need new powers to tackle the most egregious exclusionary practices, and adverse pricing practices.

Yet, despite the current limitations placed on the FCA, the regulator could do more to tackle exclusion and discrimination. The new FCA *have regard* should put the onus on the regulator to use the Consumer Duty more actively and aggressively to promote inclusion and stamp out practices that exclude consumers or contribute to exclusion.

It could use effective interventions like product regulation to make financial services more efficient and bring down prices so making products more affordable. It could use the Consumer Duty to ensure that firms treat people fairly and remove barriers to inclusion. It could also push through reforms to credit scoring, see above.

The FCA could do much more to expose the degree of financial exclusion and discrimination and hold firms to account. Financial Lives is a great resource. It provides useful data on how many people hold financial products. But, we don't have anything like the levels of disclosure and transparency provided through the US Community Reinvestment Act (CRA). We argue that the FCA should:

- produce regular financial inclusion audits assessing the performance of the industry (and sectors) against financial inclusion metrics with a special focus on households with protected characteristics;
- report to Parliament and government on the extent to which commercial financial services is able to meet the needs of vulnerable and excluded groups (especially those with protected characteristics) and on the impact of policy decisions on financial inclusion – for example, changes to the Universal Credit system;
- require firms to produce financial inclusion audits; and
- investigate whether systemic discrimination is evident, see below.

Investigation into potential systemic discrimination in financial services

The extent of exclusion faced by specific groups of people with protected characteristics and/or live in the most disadvantaged areas of the UK suggests that what we observe goes beyond financial exclusion and is arguably a case of systemic discrimination.

The FCA should investigate whether the level of exclusion can be explained by income disparities in consumer populations and the application of other conventional risk factors by the market.

The FCA should also determine whether conventional risk factors used by the market are fit for purpose and are a fair reflection of the risk inherent in providing financial services to excluded groups and justify the risk premium included in the cost of credit and insurance products.

Note that even if any investigation concluded that the level of exclusion was 'justified' by risk factors, this would not remove the need for action. It would reinforce the fact that the market operating 'rationally' is unable to meet the needs of significant numbers of consumers and major interventions are needed to ensure their needs are met.

Avoiding the wrong solutions

Just as important as doing the right things, is avoiding the wrong solutions. Weakening regulation to 'encourage' the market to sell products and services to more consumers,[71] or greater financialisation of social issues,[72] are not sustainable long term solutions.

Relying on market led initiatives or hoping that AI/tech solutions will encourage the market to deliver is not a feasible approach. Addressing exclusion and discrimination needs policy and regulatory interventions to correct market behaviour and fix broken markets.

[71] See our submission to the FCA's Advice Guidance Boundary Review which we believe will result in a weakening of consumer protection without achieving the desired aims FCA Advice/Guidance Boundary Review CP24/27 | The Financial Inclusion Centre

[72] For example, the use of social impact finance that expects to generate a market return from tackling social issues.

MEDIUM TO LONGER-TERM INTERVENTIONS, STRUCTURAL REFORMS

In this section, we provide a summary of the interventions and structural reforms we think are needed to promote sustainable inclusion.[73] The sooner policymakers and regulators accept that there is a limit to what the market can do and that structural reform is needed, the better. As mentioned, hoping that deregulating financial services to encourage markets to serve more people, or hoping that self-regulation and market led initiatives will deliver is not a serious strategy.

To address this, we argue for major policy interventions in the form of a UK version of the US Community Reinvestment Act (CRA), a financial inclusion levy, and new financial models to provide sustainable support for non-profit community based lenders.

We also argue for structural reform through the establishment of two new bodies: a National Financial Advice Service (NFAS) and National Financial Services (NFS). Alternatively, a single organisation with two main subdivisions could be established. Ensuring access to affordable insurance would also require structural reform of the market.

UK Community Reinvestment Act/Fair Banking Act

Government should introduce a UK version of the US Community Reinvestment Act (CRA) to ensure that major finance and tech firms play a full role in promoting financial inclusion and resilience, and sustainable economic growth in all UK regions. At the very least, a Fair Banking Act should be introduced.[74]

Financial Inclusion Levy

Linked to the need for a CRA/FBA, greater transparency, and institutional accountability we argue for the introduction of a dedicated Financial Inclusion and Economic Regeneration Levy. The levy should be based on the size of the financial institution and its financial inclusion 'performance' measured against a set of inclusion metrics.

National Financial Advice Service

Access to non-profit objective debt advice is a priority. But, there is a need for wider advice on financial matters eg. on pension, investment, and insurance issues to improve the financial wellbeing of consumers who cannot afford commercially provided independent financial advice.

The commercial financial advice market is unable to provide individual financial advice to millions of consumers with low incomes and/or few assets. This is not a criticism, just the nature of commercial markets. The commercial financial advice market should not be expected to provide valuable advice services to households for no reward. The market even seems to struggle to provide advice to people with modest assets. This means there is a significant 'advice gap'.

Government and the FCA are trying to partially address this advice gap through the Advice Guidance Boundary Review (AGBR). However, the current proposals would weaken consumer protection and would not close the 'advice gap' in a safe way.[75] The FCA could make the market provide better support to consumers who are viable for the market by enforcing the Consumer Duty more

[73] We would be happy to provide further information if required.
[74] For details on the FBA see Fair banking for all - Finance Innovation Lab %
[75] FCA Advice/Guidance Boundary Review CP24/27 | The Financial Inclusion Centre

effectively. But, this still leaves the issue of how to provide financial advice to those consumers the market cannot serve or who struggle to pay for individual financial advice.

An alternative to market provision is needed. MaPS provides very helpful and comprehensive information and guidance to financial consumers via its MoneyHelper service.[76] But, many consumers need more than information and guidance. They need clear advice and recommendations on what is the best course of action to take on key financial matters. An example is the valuable and neutral free service already provided by the volunteer UK Shareholders Association.[77] Services like this should be supported.

The role of MaPS should be expanded to oversee the operation of a National Financial Advice Service (NFAS). Banking hubs, Post Office network, existing debt advice organisations such as StepChange and other non-profit agencies could be networked and given the necessary resources to create the infrastructure for this NFAS. The NFAS would have three main objectives:

- supporting the growth and maintenance of a network of non-profit debt advice agencies
- promoting financial learning to UK households
- providing and enabling access to objective, free financial advice to complement the commercial financial advice market.

MaPS should be given regulatory permissions to move beyond producing information and providing guidance to providing advice and recommendations on financial activities. Eligible members of the NFAS network should also be given regulatory permissions to provide advice and recommendations on a limited range of money matters.

We envisage the NFAS could play a similar role to that once provided by NHS Direct in healthcare. A NFAS would complement commercial advice providers referring consumers onto approved independent financial advisers where it is clear that the advice need is complex, and the consumer can afford to pay for professional advice.

National Financial Services

As well as being unable to provide financial advice to large numbers of consumers, the commercial financial services sector cannot provide suitable products and services to millions of consumers. National Savings and Investment (NS&I) is an integral part of financial life in the UK. It was, of course, set up to help government raise funds. But, the Government could learn from this and establish a new institution called National Financial Services to meet the financial product needs of underserved households. This would complement the role of NFAS, above. The overarching entity would have several objectives, namely, to:

- expand access to emergency financial support and affordable loans for people the market cannot serve
- support the development of alternative insurance provision
- support the development of community based financial providers
- support the distribution of products and services to underserved households and communities

[76] Money and Pensions Service
[77] Home | UKSA Disclosure: Malcolm Hurlston, Chairman of The Financial Inclusion Centre is a director of UKSA

- oversee a UK version of the US Community Reinvestment Act (CRA)
- oversee the collection and administration of a financial inclusion levy including 'Inclusion Re' a dedicated fund for insurance inclusion, see below.

Emergency support and loans scheme (ESLS)

A priority for any financial inclusion strategy should be to expand access to emergency support and affordable loans for consumers the mainstream market is unable to serve.

Government should examine establishing a pool of funding provided by a consortium of the Bank of England, government (eg. via the National Wealth Fund), civil society funders and grantmakers, and contributions from industry through a financial inclusion and economic regeneration levy.[78] The aim should be to create an Emergency Support and Loans Scheme to be operated by National Financial Services, see above.

This scheme would directly provide, support, or facilitate access to grants, interest free and low cost bridging loans for eligible citizens. This should incorporate the proposed No-interest Loans Scheme (NILS) currently being considered by HM Treasury. The ESLS would also facilitate access to loans from credit unions and support successful concepts such as deduction based lending.

In terms of eligibility, an arrangement should be set up between the NFS and debt advice and other charities, social housing providers, and local authorities who would refer clients to the NFS. Referring organisations would assess clients' income and expenditure and 'certify' clients based on three tiers:

1: clients with negative budgets who need a grant as they will be in no position to repay a loan;
2: clients eligible for a no-interest bridging loan; and
3: clients eligible for a low cost loan from credit unions (these loans would be underwritten by the ESLS).

Note that this would be a *needs* rating, not a *credit* rating.

Alternatively, a central hub (rather than a funding pool) operated by NFS could be established with participating lenders/ grant makers signalling which tiers of clients they want to support. NFS could 'ping' clients to participating funders/ lenders or clients could choose an appropriate lender/grantmaker.

We envisage that most people who would be eligible for the ESLS support would be referrals from trusted intermediaries. But, NFS could allow direct applications and use Open Banking technology to determine eligibility for support.

Self-employed Support and Loans Scheme (SSLS)

A similar approach is needed for the self-employed/sole traders whom the market cannot serve or is not interested in serving. It is logical to make greater use of the established relationship between the state and the self-employed/sole traders to reduce the administration and distribution costs involved in making loans to underserved groups.

The Bank of England, HM Treasury and HMRC should collaborate on exploring the creation of a SSLS to provide interest free loans to the self-employed/sole traders. Funds for loans would come from

[78] The levy contribution would be determined by the financial and economic inclusion performance of financial institutions.

the Bank of England, government, and part of the financial inclusion and economic regeneration levy. Loans would be repaid over three years and recycled.

The existing relationship the self-employed/sole traders have with HMRC means the Bank of England and government can ensure that those who can repay loans do so. This would be similar to deduction based lending schemes for consumers. However, the actual loans could be administered by credit unions and CDFIs. Alternatively, self-employed loans could be made by credit unions and CDFIs but de-risked using the SSLS and other funding sources such as the National Wealth Fund, see below.

Supporting the growth of the non-profit lending sector

As outlined above, a ESLS could be established to provide no-interest/ low-cost loans for households who are need of emergency short term credit. But, renewed efforts will be needed to develop capacity in the alternative, non-profit lending sector to meet the long term need for affordable credit.

Previously, the resources available to commercial lenders such as payday lenders meant that non-profit lenders found it very hard to compete. Even though the payday lending cap and tougher consumer credit regulation has significantly reduced the size of the payday lending sector, non-profits still face real challenges extending their reach.

For the non-profit sector to make an impact in these more challenging times, requires a radically different approach. Our experience covering the non-profit alternative lending sector tells us that the main factors explaining the limited penetration of non-profit lenders are:

- limited available of long term capital (although credit unions are sitting on significant members' deposits the problem is lack of opportunities for using surplus credit union deposits);
- fragmentation of the non-profit, community based lending sector results in diseconomies of scale and limits the ability of the sector to extend its reach to underserved households; and
- limited opportunities for distributing and marketing loans to target markets.

New mechanisms are needed to channel resources into the non-profit lending sector. To provide further capital for the ESLS outlined above, we encourage government to create National Savings and Investment (NS&I) Social Lending Bonds, and Local Authority Community Lending Bonds. These bonds would allow social purpose savers and investors to provide longer term loan capital to the non-profit lending sector. The returns available would be lower than the cost of commercial loans.

Moreover, there is an opportunity to use the National Wealth Fund (NWF) to support economically and socially useful activities. The NWF is providing up to £750 million in financial guarantees to 'de-risk' £1 billion in commercial loans from two of the largest UK banks to social housing providers to retrofit housing stock.[79] If a state agency can do this for two of the largest UK banks, then it could surely develop a similar model for non-profit community lenders. Government should reserve part of the NWF assets to de-risk loans by non-profit community lenders to support economic regeneration and financial inclusion in the most disadvantaged areas of the UK.

[79] National Wealth Fund, Barclays UK Corporate Bank and Lloyds Banking Group join forces to unleash £1 billion to retrofit social housing | National Wealth Fund

Similarly, the Government could extend the use of the PWLB lending facility to expand access to local authority home improvement finance schemes which would reduce energy costs for households.[80]

CBDC

The Government and Bank of England is currently exploring the case for a central bank digital currency (CBDC) or digital pound (D£).[81] Unfortunately, as it stands, the intention seems to be to allow the market to decide which new services are built using the digital pound as a platform and who products and services would be offered to. So, it is unlikely to do much to address exclusion.

This seems like a wasted opportunity. As a longer term solution, the digital pound could be harnessed to promote financial inclusion and regenerate local economies by directing digital pounds into areas of greatest disadvantage. Government and Bank of England should expand the remit of the work on the digital pound and make promoting inclusion and regeneration a priority.

Access to insurance

Access to insurance is an important component of household financial resilience and financial inclusion. Historically, in debates about financial inclusion, insurance has not received the same attention as banking, savings, and credit. We describe it as the 'Cinderella of financial exclusion'.

The evidence shows that we have made very little progress on this front. A significant proportion of lower income households lack basic insurance such as contents insurance. Just 50% of people in poverty have household contents insurance. Even more stark, under one-quarter (23%) of people in poverty living in the private rented sector have household contents insurance compared to 80% of those who own their homes outright.[82] Minority ethnic adults are significantly more likely to not have insurance, see key facts above.

Lack of insurance can leave already financially vulnerable households having to find money to replace broken appliances or if they have been burgled, and can force them to take out high cost loans.

If they do have insurance, people on low incomes pay a 'poverty premium'. Recent analysis found that *people living in the most deprived areas of England and Wales pay between 29-48% extra for car insurance and that people living in more ethnically diverse areas pay around 20% higher than those in less ethnically diverse areas.*[83]

We set out ideas for ethical versions of rent-to-own schemes to help households access affordable household products – see below. But, what can we do about access to insurance? As with most issues relating to financial exclusion, it comes down to access and distribution, and the unit costs involved in reaching underserved groups.

The problem remains that the commercial insurance industry is just unwilling or unable to provide affordable insurance to excluded households as a result of the dominant risk based pricing models.

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[80] The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury Local Authority Lending

[81] The digital pound | Bank of England

[82] Insurance-and-the-poverty-premium-March-2023.pdf

[83] Low-income drivers pay up to 48% more for car insurance - Fair By Design

Alternative means of reaching underserved groups will be needed. To address the general insurance needs of people who are not being served by the market, there are really only two options. Government and regulators could mandate access to insurance or a version of Flood Re could be established to underwrite risks.

Either way, there should be a big role for trusted intermediaries such as housing associations who should be supported in efforts to establish insurance with rent schemes.

Mandating provision

Policymakers and regulators could mandate the provision of basic low cost insurance to groups of consumers considered to be uninsurable by insurers or who are effectively priced out of the market. This could be done using a 'carousel' system where a panel of insurers would be required to take turns insuring excluded consumers who need the basic insurance product. Potentially 'uninsurable' or priced out customers could be referred to the insurance panel via a number of channels including debt and money advice agencies, social housing providers.

To avoid the free rider effect, an insurer on the panel would be automatically allocated a new customer, with the next customer then allocated to the next insurer on a 'carousel' system. Larger insurers would have more 'places' on the carousel so ensuring that they receive their fair share of uninsurable customers and smaller insurers are not penalised. The low cost nature of these basic insurance products means, by definition, these would likely to be loss making for insurers and would involve some form of cross subsidy. To reiterate, if we are to tackle the structural barriers to inclusion, there would need to be some form of cross subsidy.

Inclusion Re

As an alternative, government could establish Inclusion Re, an initiative requiring insurers to share the risk of insuring excluded consumers. This would work on a similar basis to the Flood Re Scheme.[84] With Flood Re, participating insurers pay a levy into the Flood Re Scheme which can then be used to cover the flood risks in home insurance policies. Insurers could be required to pay a levy into Inclusion Re, which would then be used to underwrite higher risk basic insurance policies.

Ethical, responsible rent-to-own schemes

The rent-to-own (RTO) sector, although comparatively small, has been a source of serious detriment for many financially vulnerable households. As with the payday lending sector, campaigning by groups like the Financial Inclusion Centre has led to a very welcome clampdown on the commercial RTO sector.

As with short term lending, the problem is not with the RTO model per se rather than how these services are operated and delivered. Structured properly, RTO can be socially useful. The Financial Inclusion Centre previously set out a model for providing responsible RTO services.[85]

Local authorities, social housing providers, non-profit organisations, environmental charities, and social impact funders should collaborate on establishing a network of non-profit RTO schemes. This network would have a dual purpose of tackling economic exclusion and promoting circular economy activities to support environmental objectives.

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84 How Does Flood Re Work? | Flood Re

85 Better and Brighter-Responsible Rent to Own Alternatives | The Financial Inclusion Centre

Affordable Lending Gateway

Distribution is critical to reducing unit cost and extending access. Social entrepreneurs should create the Affordable Lending Gateway. This would be a single on-line lending platform to match loans from non-profit lenders such as credit unions and CDFIs with potential borrowers. A nationwide 'white-label' option should be available.

This service would act as a single source of information on affordable loans and act as a portal to allow consumers (or trusted intermediaries acting on their behalf) to enter personal details to be matched with eligible loan options without compromising their credit scores.

Market Delivery Agency

There are a number of potential models for expanding access to socially useful savings, credit, and insurance products and services. The challenge still remains of how best to ensure any new products reach those who need them. As mentioned, so much of exclusion comes down to distribution, getting the right products to the right people in the right place at the right time.

Here, we think there is a potentially significant role for trusted intermediaries that already have established relationships with hard to reach, lower income households to deliver economies of scale. Building relationships to ensure products and services are delivered to the target market requires sustained coordinated action.

Funders should fund a non-profit entity to take the lead on: developing the Affordable Lending Gateway and other services such as ethical rent-to-own schemes (see below); setting up relationships with employers, social housing providers, local authorities and others who can extend distribution of loans and other products and services (for example, setting up payroll deduction schemes); and, more generally, promoting and marketing alternative lending and financial services.

Other social policy priorities

We recognise that there are other critical factors which contribute to financial vulnerability which we have not addressed in this paper. Poverty is obviously a primary cause of financial exclusion and financial vulnerability. Millions of people have no or little financial cushion to fall back on in the event of losing their job or experiencing unexpected falls in their income, and are unlikely to ever build such a cushion, so there is a case for examining the reform of the social security safety net.

Despite the success of pensions autoenrolment and the NEST pension scheme, there is much more to be done to ensure financial security in retirement for millions of people who are not contributing enough and to address the major gaps in pension provision. In 2022/23, HMRC estimated that pensions received £70.6 billion of tax relief (net £48.7 billion).[86] There is an argument for reforming the pensions tax relief system, which disproportionately benefits the better off, and targeting interventions on boosting the pensions of lower income households, the self-employed, and carers (mostly women).

[86] CBP-7505.pdf, Table 1

The cost of funding long term care is a major cause of financial vulnerability and anxiety for many people and, along with the closure of defined benefit pension schemes, is part of a large scale transfer of risk to individuals.

Creating a new long term framework to enable individuals to manage future risks better must be a priority. At the time of writing, the current turmoil on the global financial markets is a stark reminder that millions of people are now required to save for retirement via pension schemes that are much more exposed to financial market risks. The ageing population and changing demographics pushes up the costs of providing decent social care putting pressure on public finances. Policymakers have yet to develop a sustainable settlement between the individual and the state to manage the risks of funding social care.

But, those are major social policy issues involving a more direct role for the state and are outside the scope of the Financial Inclusion Strategy, which focuses on policy areas where people are expected to use markets to meet their core financial needs. There is a distinction between consumer policy (where people are expected to use markets and other service providers to meet their needs) and social or public policy (where the state plays a direct role in meeting needs).

Of course, the state has a key role to play in consumer policy. It establishes the legislative and regulatory framework which governs what is expected of markets and determines consumer rights. It can also fund services like debt advice or provide financial support for financial inclusion programmes. Yet, those interventions are very much about supporting consumers to use markets for their needs, not the state directly meeting those needs.

However, let's hope the Government and civil society do not neglect these critical social policy issues. It is very difficult to see how we can create a sustainable strategy for promoting financial resilience and security without considering the role of the state and its interaction with market based provision.

CONCLUSION

The fact that the Government is developing a National Financial Inclusion Strategy and has created a dedicated Financial Inclusion Committee signals a very welcome commitment to tackling chronic financial exclusion in the UK. It is very unfortunate that, other than people having a right of access to a basic bank account and pensions autoenrollment (both as a result of legal interventions), we have made almost no progress in tackling financial exclusion since the 2008 financial crisis. That crisis really ought to have triggered a fundamental rethink in government policy on making finance work for society and building financial resilience. The fact that 2008 didn't trigger such a response meant that millions were left financially vulnerable to the Covid-related economic and cost of living crises.

Let's hope that we don't fail to use the opportunity provided by the financial inclusion strategy to mount a serious challenge to financial exclusion and vulnerability.

The NFIS should prioritise the most financially vulnerable and most affected by exclusion. We know who is excluded, and why. Black and minoritised ethnic households, people with a disability, single parents and carers (mainly women), and people living in the most deprived areas of the UK are ***significantly*** more likely to be excluded from financial services, or disadvantaged due to the way the market functions. Mental health issues can exacerbate the harm caused by economic and market factors. The self-employed face specific issues in relation to vulnerability in retirement, and there is a cohort of citizens approaching state retirement age who are financially vulnerable.

A better functioning mainstream commercial market could serve more consumers. But, we must face facts that the market left to its own devices cannot serve, or is not interested in serving, millions of consumers. This is not a criticism of the market; it is just how it works. But, government and regulatory policy should reflect the fact that large numbers of consumers are expected to use a market that just cannot or will not meet their core financial needs. If we are serious about tackling exclusion and arguably systemic discrimination, this will need a very different approach from the one followed up to now.

It should be acknowledged that addressing some of the chronic, systemic challenges would require significant policy and regulatory interventions and structural reform. Even if the political will is there to intervene to make markets work or develop alternative solutions, these would take some time to implement. The question arises of what happens when the Financial Inclusion Committee is wound up? Who will coordinate interventions and maintain momentum?

In the meantime, let's hope the Financial Inclusion Committee produces a number of quick wins that could make a significant difference to people's lives. Financially vulnerable and excluded consumers cannot afford to wait for the wheels of policymaking to turn as slow as they do in the UK. Civil society has a key role to play alongside government and regulators delivering quick wins that make a difference. We don't need yet more research into who is excluded or why. There is no need to reinvent the wheel when it comes to financial inclusion solutions. If there is to be new research it should focus on distribution and delivery so that the right solutions get to the right people at the right time. It is time to turn ideas into action.

Financial Inclusion and Markets Centre
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